CalPERS
Mark Anson, Ph.D., CFA, CPA, CAIA, Esq.
Chief Investment Officer
P.O. Box 2749
Sacramento, CA 95812-2749
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-3400; FAX (916) 795-2842

November 30, 2004 **<u>Via Overnight Courier</u>**

Raymond V. Gilmartin, Chairman,
President and Chief Executive Officer
Merck & Co., Inc.
One Merck Drive
P. O. Box 100
Whitehouse Station, NJ 08889-0100

Dear Mr. Gilmartin:

I am writing to you on behalf of the California Public Employees' Retirement System (CalPERS), the nation's largest public pension fund, and a long-term shareowner in your company.

Obviously, as a long-term holder we are deeply concerned over the recent events involving Vioxx and the resulting loss of shareowner value. Our concern stems not only from the specific circumstances of this drug, but more significantly from the greater implications for the industry and of course our investment in Merck.

On the first level, we find the accusations that the Company had reason to believe that Vioxx may have potential safety concerns as much as a year prior to the removal, yet failed to disclose this information deeply troubling. Should this be the case, it raises serious questions regarding the ability of the industry to effectively address the conflict of interest inherent in its business between safety and profitability.

Secondly, it is our belief that the board, as well as senior management, have a responsibility above and beyond the scrutiny of the regulatory process to protect and enhance shareowner value over the long-term. Merck has lost more than a third of its market value in the short period since the Vioxx issue surfaced. It is clear that at least some portion of this value destruction is related to lost confidence, separate and distinct from the specific safety issues.

In light of these issues, CalPERS requests that you address the following:

(1) What steps are you taking to examine the internal processes at Merck to ensure that similar situations do not occur? We request that you specifically

address the issue of continued focus on the safety of existing drugs and how you address the conflict inherent in your business between long-term product safety and short-term profitability; and

(2) What steps Merck is taking to restore shareowner value and market confidence in the wake of these events. It goes without saying that we consider the larger issues of confidence and trust to be critical in responding to this situation and are looking for significant steps from the Company in this regard.

Our concern over the situation at Merck is further advanced by your recent disclosure regarding the adoption of a Change in Control Separation Benefits Plan. The timing of the plan leaves the impression that your highest priority is protecting the economics of the management team rather than the owners. Further, we find a number of the specific provisions in the Plan to be overly generous and too broad. Examples include the fact that the plan provides for accelerated vesting and gross-up payments for some individuals as well as a broad definition of “good reason” (in reference to resignation by a participant following a change in control). There are also several specific provisions within the plan that CalPERS finds particularly onerous. Primary among these points is the continuing director provision included in your definition of change in control.

We are requesting a written response to the two points related to drug safety and would like to hold an initial call at this time and perhaps meet to discuss executive compensation issues and specifically the Change in Control Plan.

Please send your responses to William Sherwood-McGrew, Portfolio Manager, Corporate Governance at the address listed below. Questions can also be directed to Mr. McGrew at (916) 795-2431.

William Sherwood-McGrew
CalPERS Corporate Governance Program
400 P Street
Sacramento, California 95814
Bill_mcgrew@calpers.ca.gov

We appreciate your attention to this request and look forward to your reply.

Sincerely,

Mark Anson

cc: Sean Harrigan, President, CalPERS Board of Administration
Rob Feckner, Chairman, CalPERS Investment Committee
Fred Buenrostro, Chief Executive Officer, CalPERS